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## DIRECTORATE OF INTELLIGENCE

19 November 1986

Japanese Agriculture: Reform--Yes,  
 Liberalization--Not Now

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## Summary

The recently rejected petition for a Section 301 investigation of Japanese barriers to rice imports has sparked a debate in Tokyo over agricultural policies, which now provide generous protection in the form of import licensing, price supports, and subsidies (see the Appendix). In our judgment, this debate will not soon lead to liberalization--the removal of import barriers--of Japanese rice or other key agricultural products. But Japan's political leaders now are seriously discussing domestic reforms, such as reducing price supports, which would spur marginal producers to abandon agriculture and might eventually incline Tokyo to consider freer trade in major agricultural commodities. We believe the upcoming GATT negotiations to liberalize agricultural trade will sustain pressure for reform as long as Japan or rice

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are not singled out. International efforts, moreover, may increase the policymaking leverage of those in Tokyo--including the Finance Ministry--whose stake in agricultural protectionism is relatively limited. [ ]

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### The Rear Guard Hesitant To Change

Within the Japanese Government, the **Ministry of Agriculture, Forestry and Fisheries** (MAFF) has consistently been the strongest voice opposing liberalization, both of rice and of agricultural imports in general. Agriculture Minister Mutsuki Kato, an influential member of the faction headed by prime ministerial contender Shintaro Abe, has told US officials that elimination of restrictions on rice imports, which totalled only about 6,500 tons last year, is out of the question and insists that Tokyo's current policies are legal under GATT provisions. He argues that MAFF's objective of maintaining self-sufficiency in rice for food-security reasons is supported by all political parties, according to the US Embassy in Tokyo. In our view, MAFF and the farm interests it represents will resist liberalization of rice far more strongly than that of any other crop because it is the staple of the Japanese diet and Japan's most widely cultivated crop. Rice is the principal crop for two out of three farm households. [ ]

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But we are optimistic that, even in MAFF's case, sentiment for reducing agricultural protection--especially for foodstuffs other than rice--will build year by year. An advisory council to the Ministry of Agriculture is expected to recommend in December that price support levels--even for rice--be determined by the productivity of the most efficient farmers rather than the least efficient as is the case now, according to a press article. Without high price supports, many of the 70 percent of Japanese farmers whose primary source of income comes from outside the agricultural sector would lose the incentive to continue farming. [ ]

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Such a change in the price support system would, in our view, be the first step in a long process of securing freer agricultural trade in Japan. Although they are unwilling to admit it publicly, some MAFF officials probably already realize that a smaller number of highly efficient farmers would be able to compete effectively against foreign products, particularly if they specialize in the high-grade products preferred by the Japanese consumer. In our view, a clear signal in the form of a new GATT call for worldwide reform would be enough to bring these MAFF officials out of the closet to initiate the first step. [ ]

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Minister Kato also has expressed to US officials an interest in working with Washington to formulate new GATT rules for trade

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in agricultural commodities as long as the rice issue is not emphasized. [ ] this statement offers hope that the Japanese will be forthcoming in next year's multinational discussions on barriers to agricultural trade. [ ]

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The ruling **Liberal Democratic Party's** (LDP's) agricultural lobby is as adamantly opposed as MAFF to near term liberalization of agricultural trade, especially in rice. The core of the lobby is the 200-member Agriculture and Forestry Division of the party's policy board. Leaders of the agricultural lobby such as former Minister of Agriculture Tsutomu Hata and Lower House Agriculture Committee Chairman Tokuichiro Tamazawa have warned US Embassy officers that there is "no give" on the rice import issue and that further pressure might adversely affect bilateral negotiations on other agricultural trade issues. We do not consider this an idle threat, but we are unsure whether these leaders will actively press for removal of Japan's residual agricultural quotas on items such as peanuts if the controversy over rice abates. [ ]

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Like MAFF, however, the top echelon of the LDP lobby recognizes the need for changes in Japanese agricultural policies. [ ] Motoji Kondo, chairman of the Agriculture and Forestry Division, has said

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[ ] that he planned to develop a consensus within the Division for annual cuts in the support price for rice. Gradual change would, in his view, give farmers a chance to raise productivity to internationally competitive levels. And this, in turn, would probably make Tokyo more comfortable with the idea of agricultural trade liberalization. [ ]

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#### Active Proponents of Change

In contrast to MAFF officials and the LDP agricultural lobby, whose first impulse in the face of foreign pressure is to specify what Japan cannot do, **Prime Minister Nakasone** and the leaders of two opposition parties are pushing for changes that they consider necessary. In an early October Upper House Budget Committee session, Nakasone blamed price supports for the high price--currently about six times the world market price--that Japanese consumers pay for rice. After Nakasone spoke, Management and Coordination Agency Director General Kazuo Tamaki rose to attack the unwillingness of the powerful Central Union of Agricultural Cooperatives to promote changes in agriculture. Perhaps encouraged by the favorable editorial comments that followed, Nakasone admitted to first-term LDP Dietmen on 29 October that he had urged Tamaki to criticize the agricultural

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[redacted]

system. The Prime Minister also told his audience that US pressure should be used to promote reform, according to the Japanese press. [redacted]

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We expect Nakasone to continue pushing for agricultural reform until next August, when the support price for 1987 is decided. But at that point the Prime Minister may choose to ease off, as he did this year, if he sees that such a stance would be politically damaging and might limit the possibility of securing an extension in office beyond October 1987. [redacted]

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Nakasone's eagerness to address the support price issue may be inspired in part by a desire to prevent **opposition parties** from gaining a potentially appealing campaign issue. According to press reports, Japan Socialist Party (JSP) Chairwoman Takako Doi and Democratic Socialist Party (DSP) Chairman Saburo Tsukamoto have both instructed their parties' policy boards to begin studying the issue, which they see as a means of attracting the electoral support of urban consumers. [redacted]

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[redacted]

[redacted]. In the meantime, party officials must overcome the opposition of five or six of the party's 38 Diet members who are dependent on the financial or electoral support of farmers. The JSP leadership will face the same kind of opposition if it decides to change policy. A switch to active support of reform by either of these parties would keep pressure on Nakasone and his successors to follow through and make Japan's food control system less protective. [redacted]

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### Fence Sitters

The **Ministry of Foreign Affairs** (MFA), which is generally very active in explaining the US point of view in Tokyo, has been relatively quiet on the rice trade issue. One reason for its low profile may be Foreign Minister Tadashi Kuranari's involvement in the agricultural lobby. His recent statements to the press have corresponded to MAFF positions. He appears to share the fear that Washington will focus on the rice issue in the Uruguay Round talks beginning next year. Despite Kuranari's apparent reluctance to tackle agricultural issues, the MFA's Economic Affairs Bureau--as Japan's negotiators in multinational fora--will play an increasingly important role in policy decisions as GATT negotiations approach. MFA officials, however, tend to avoid butting heads with the politically more influential MAFF unless they see that Japan is in danger of becoming isolated. Their greatest worry, in our view, would be an agreement between the United States and the European Community that domestic subsidies, not just export subsidies, must be addressed as part of a comprehensive settlement of agricultural trade issues. [redacted]

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As the drafter of the Japanese Government budget, the **Ministry of Finance** has an indirect interest in reform of agricultural policy. In the current fiscal year, it has allocated \$3.7 billion to fund price supports or to keep farmland out of cultivation. Another \$5.3 billion is being spent for agricultural public works, such as irrigation and drainage projects. Together, these programs are half as large as Japan's defense budget. Any changes in agricultural policy that reduced the cost of these subsidies would increase the Ministry's ability to fund other programs or cut government spending. The Ministry, however, may remain a fence sitter on agricultural policy because of the issue's political sensitivity. Moreover, those Finance Ministry officials responsible for tobacco negotiations may sympathize with those in MAFF and the LDP arguing for continued protectionist measures for other agricultural goods. [ ]

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#### The Pace of Reform Is the Real Question

The scope of Japan's debate on agricultural policy remains narrow. No one seriously advocates elimination of all restrictions on agricultural imports, especially rice. But, at the same time, almost everyone recognizes a need to cut costly domestic farm subsidies. In commenting on the 301 petition, Japanese editorials called for a reassessment of Tokyo's costly agricultural protection while cautioning against giving in to foreign pressure on rice imports. The real focus of contention is likely to be whether rice will remain a special case and at what pace price supports and subsidies can be reduced without causing a severe political backlash. Can the latter measures, for example, be phased out in a decade or will it take longer? In our view, domestic political considerations will be the principal determinant of the speed and extent of agricultural reform and import liberalization. However, growing foreign pressure--from the Cairns group of 14 nonsubsidizing agricultural exporters, for example--in the coming multinational negotiations to liberalize trade in agricultural commodities can exert an influence, especially if the focus is general enough to include rice without singling it out. [ ]

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## APPENDIX

JAPAN'S AGRICULTURAL PRICE SUPPORT SYSTEM

Under authority of the Food Control Law, MAFF's Food Agency maintains price supports for rice, wheat, and several other agricultural commodities. The price the government guarantees to producers is set each August at a level designed to keep farmers' incomes in line with those of nonagricultural households. Because of the rapid growth of nonfarm household income, however, this parity formula has pushed the producer price of rice much higher than elsewhere in the world. To prevent the high price from becoming an excessive burden on the consumer, the government resells rice to wholesalers for less than the producer price. In the current fiscal year, Tokyo will spend \$2.2 billion to cover the difference between the producer and retail price plus administrative expenses for the system, including the fees paid to agricultural cooperatives for buying rice from producers on Tokyo's behalf. The high price also induces surplus production of rice, and, in hopes of preventing this, Tokyo will spend \$1.4 billion to encourage farmers to grow other crops. [REDACTED]

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To prevent cheaper imports from undermining the system, the law authorizes monopolistic state trading in selected foodstuffs. Virtually no licenses are issued for rice imports. In contrast, the Food Agency imports wheat and barley and then resells it domestically, generally at a higher price. The profits are used to subsidize domestic producers of these items, leading to an increase in Japan's self-sufficiency ratio for wheat and barley. The net result is to deny foreign producers access to part of the wheat and barley markets as well as to the rice market. [REDACTED]

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SUBJECT: Japanese Agriculture: Reform--Yes, Liberalization--Not  
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